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PSC GIVES CONDITIONAL APPROVAL TO UNION LIGHT, HEAT & POWER PROPOSAL TO PURCHASE POWER PLANTS

FOR IMMEDIATE RELEASE
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FRANKFORT, KY – The Kentucky Public Service Commission today gave conditional approval to the proposal by The Union Light, Heat and Power Co. (ULH&P) to purchase electric generating capacity from its parent company, The Cincinnati Gas & Electric Co. (CG&E).

ULH&P plans to acquire partial or total ownership of three power plants owned and operated by CG&E. Both companies are subsidiaries of Cinergy Corp., and the plants will continue to operate as parts of the Cinergy system.

Final approval of the acquisition is subject to the PSC's review of the final transaction documents between ULH&P and CG&E.

The acquisition will protect ULH&P's customers by placing the company's generating facilities under PSC regulation. ULH&P has been relying on power purchased from CG&E, which operates in the deregulated market in Ohio, putting ULH&P at risk of potential future fluctuations in wholesale power prices.

When the PSC approved the power purchase agreement in 2001, it urged ULH&P to consider acquiring its own generating capacity "in order to insulate itself from the impacts of market prices for wholesale power," the PSC noted in today's order. ULH&P's proposal came in response to the PSC's earlier order and a 2001 administrative case examining the adequacy of Kentucky's electric generation and transmission system.

The generating capacity to be acquired totals 1,105 megawatts (MW) and includes:

- CG&E's 69% share in the 648 MW East Bend No. 2 coal-fired baseload unit in Rabbit Hash, KY.
- Miami Fort No. 6, a 168 MW coal-fired unit in North Bend, Ohio.
- The 490 MW Woodsdale Generating Station in Trenton, Ohio, which consists of six gas-fired turbines used only during periods of peak demand.

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In its order, the PSC accepted, with minor modifications, the purchase conditions proposed by ULH&P. The PSC gave ULH&P 30 days to decide whether to accept the changes.

The PSC also directed ULH&P to file an application for new rates in time to allow those rates to take effect on January 1, 2007. ULH&P has not had a general adjustment to its electric rates since 1991, the PSC noted, and its electric rates are frozen through 2006.

“The Commission commends ULH&P for its efficiency and its stewardship of ratepayers' monies, which have contributed to its not requiring a general rate increase for this length of time,” the PSC said. However, both the impact of the acquisitions and “the numerous changes that have occurred in the electric industry since 1991” make it likely that ULH&P will need to adjust its rates by 2007, the PSC said.

Other provisions in the order:

- Grant ULH&P waivers from state law prohibiting certain transactions between affiliated companies and from PSC regulations requiring another examination of power-supply options.
- Outline how certain financial aspects of the transaction will be treated on the company's books and are expected to be treated in future base rate proceedings and fuel adjustment clause proceedings before the PSC.
- Require that profits from any off-system power sales will, in ULH&P's next base rate case, be shared between ratepayers and shareholders, with the first $1 million credited to ratepayers and profits above $1 million shared equally by ratepayers and shareholders.

The transactions also must be approved by the Federal Energy Regulatory Commission and the Securities and Exchange Commission.

Today's order and other documents in the case are available on the PSC Web site, psc.ky.gov. The case number is 2003-00252.

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